

VZCZCXRO4572
RR RUEHCN RUESLE
DE RUEHBU #0790/01 1611413
ZNR UUUUU ZZH
R 091413Z JUN 08
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC 1286
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/USDOC WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUCNMER/MERCOSUR COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0251
RUEHCN/AMCONSUL CHENGDU 0018
RUEHGZ/AMCONSUL GUANGZHOU 0108
RUEHHK/AMCONSUL HONG KONG 0046
RUESLE/AMCONSUL SHANGHAI 0032
RUEHSH/AMCONSUL SHENYANG 0020

UNCLAS SECTION 01 OF 03 BUENOS AIRES 000790

USDOC for 4321/ITA/MAC/OLAC/PEACHER

SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: [ETRD](#) [EINV](#) [AR](#) [CH](#)
SUBJECT: Argentina-China Trade Update: Advantage, China

Refs: (A) Buenos Aires 766 and previous
(B) Buenos Aires 81
(C) 07 Buenos Aires 1648

Summary

[¶1.](#) (SBU) After declining rapidly over the last few years, Argentina's bilateral trade surplus with China fell into deficit in early 2008. This is due mainly to increased imports, which have risen more quickly from China than the rest of the world, whereas the increase in exports to China is similar to the growth in Argentina's global exports. The increase in Chinese imports prompted GoA measures in 2007 aimed at reducing imports from China (and had at least a temporary effect on some U.S. companies), but these measures proved ineffectual, and further such efforts seem unlikely. End Summary.

Reversal of Fortunes

[¶2.](#) (SBU) Predictions by GoA and private-sector observers that Argentina's bilateral trade surplus with China would disappear by the end of 2007 (see Ref B) were slightly off: the final trade balance ended as a USD 253 million Argentine surplus. This was a huge drop from Argentina's bilateral surplus of \$1.66 billion in 2005, and only half of the \$490 million surplus in 2006. Furthermore, the 2007 surplus occurred mainly due to increased soy prices. Even the impact of that advantage has diminished in 2008, with Argentina experiencing a bilateral trade deficit with China of \$628 million for the first quarter of 2008.

[¶3.](#) (SBU) Exports to China in the first quarter seem to have been impacted by the ongoing agricultural strike, which began in mid-March (ref A). According to the Global Trade Atlas (gtis.com, which receives detailed trade data from the GoA), Argentina's total exports of soy (raw beans and oil) from Argentina to China were \$641 million in the first three months of 2008, 101% higher y-o-y. (Argentina's global exports of the same products rose 93%.) While the value of soy oil exported from Argentina to China in Q12008 (70% of total soy exported to China) grew 98% y-o-y, the quantity increased 15% in the same period. However, the trend of soy oil export quantities is declining so far in 2008. Exports were 231,000 tons in January 2008, compared to 58,000 in 2007; in February 2008, they were 140,000 tons, compared to 156,000 in February 2007. In

March 2008, the quantity of soy oil exported to China fell to only 88,000 tons, compared to 185,000 tons in March 2007.

14. (SBU) In mid-2007, in response to the rapidly shrinking bilateral trade surplus, the GoA imposed a number of potentially trade-restricting measures as purported defense against "unfair competition" from Chinese goods (Ref C). The implementation of the measures caused sporadic and temporary delays of shipments from third-country affiliates of some U.S. companies. So far in 2008, the GoA has not enacted or even publicly suggested the possibility of implementing additional protectionist measures.

Declining Argentine Trade Surplus with China

15. (U) Argentina has maintained a bilateral trade surplus with China since 2001. The surplus peaked in 2003 at \$1.8 billion, with exports of \$2.6 billion and imports of \$740 million. (Unless otherwise specified, all trade data herein is from GoA statistics agency INDEC, for goods only, and combines trade with China, Hong Kong, and Macao.) While bilateral trade between the two countries has grown rapidly, from \$3.3 billion in 2003 to \$10.5 billion in 2007, Argentina's surplus has gradually diminished. By the end of 2006, the annual surplus had fallen to \$490 million (exports \$3.6 billion, imports \$3.2 billion), and dropped further to just \$253 million in 2007 (exports \$5.4 billion, imports \$5.1 billion).

16. (U) Argentina's overall trade surplus has also been shrinking over this period. The surplus peaked at \$15.5 billion in 2003, on exports of \$29.6 billion and imports of \$13.8 billion. In 2006, the

BUENOS AIR 00000790 002 OF 003

surplus fell to \$12.3 billion on exports of \$46.5 billion and imports of \$34.2 billion, and \$11.2 billion in 2007 on exports of \$55.9 billion and imports of \$44.8 billion. However, the surplus in the first quarter of 2008 of about \$2.9 billion, on exports of \$15.8 billion and imports of \$12.8 billion, was 49% higher than the surplus for the same period of 2007.

17. (U) The trade balance with China for the first quarter of 2007 also registered a deficit of \$341 million. However, the \$287 million difference between this amount and the \$628 million deficit in the first quarter of 2008 is greater than the entire bilateral trade surplus for 2007. It is also notable that the bilateral deficit with China grew at the same time that Argentina's global trade surplus rose. The difference is due to rapidly increasing imports: while Argentine exports to China grew at 41.4% y-o-y in the first quarter, versus 41.7% y-o-y to the rest of the world, imports from China rose over 56% during the same timeframe, compared to a 38% from the rest of the world.

Burgeoning Imports from China in 2008

18. (U) Argentine imports from China climbed to U\$S 1.5 billion in the first quarter of 2008, up from \$970 million in 1Q2007. The largest driver of this change was in the category of intermediate goods, which rose \$196 million (or 71%) to \$473 million, and represented 31% of total Argentine imports from China. Consumer goods imports increased 52% to \$379 million, 25% of all Chinese goods shipped to Argentina. Capital goods increased 38% to \$411 million, or 27% of imports from China. The category with the fastest growth compared to 2007 was passenger vehicle imports, which rose 125% to \$9 million. China maintained its position in Q12008 as Argentina's fourth-largest supplier of goods, behind Mercosur, the European Union, and the NAFTA grouping.

Exports to China Growing in 2008, Mostly Agricultural

19. (U) Argentine exports to China for the first quarter of 2008 hit \$892 million, up from \$631 million in the first quarter of 2007. The growth was primarily driven by increased exports of processed

agricultural goods, which rose \$207 million to \$564 million. This represents 63% of all exports to China in 1Q2008, and the increase accounted for 79% of total export growth y-o-y to China. Primary commodity exports nearly doubled from \$102 million to \$203 million, while manufactured goods exports rose from \$27 to \$32 million. Exports of energy and fuels fell from \$144 million to \$93 million, from 23% of exports to China in 1Q2007 to just 10% in 1Q2008.

¶10. (U) Argentine exports during the second quarter are expected to fall as a result of the ongoing dispute over agricultural export taxes (Ref A), which has disrupted shipments of soybeans and soybean products to China (the primary Argentine export to China). Chinese importers are reported to be seeking more reliable sources (including the United States and Brazil), creating a price discount for Argentine exports relative to other sources. For Q12008, China continued as Argentina's fifth-largest export market, behind Mercosur, the European Union, NAFTA, and Chile, the same as in ¶2007.

COMMENT

¶11. (SBU) Burgeoning imports from China in 2007 were a cause of great concern in Argentina, particularly to the industrial sector, and led to the GoA's decision to impose trade measures on goods from China and other countries in Asia (Ref C and previous). But while the measures appeared to be WTO-compliant, they also do not seem to have staunched the inflow of Chinese goods. Surging Chinese imports are undoubtedly still of concern to the mercantilist-minded GoA, as well as to the industrial sectors that applied pressure on the GoA to create the measures in the first place. The rapid increase in auto imports may be cause for specific concern in the GoA and local industry. While the \$9 million in auto imports is still relatively minor, motorcycle imports surged from just \$1.7 million in 2003 to

BUENOS AIR 00000790 003 OF 003

\$251 million in 2007. If the trend continues, Chinese automotive imports will probably generate considerable concern from manufacturers in Argentina, which include U.S. companies. End Comment.

WAYNE